

The Relationship Between Financial Literacy and Investment Decision-Making Among Young Adults

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Abstract: This study examines the relationship between financial literacy and investment decision-making among young adults aged 18–35. With increasing financial complexity and responsibility, young adults must navigate investment choices that significantly impact their financial well-being. The research investigates how financial knowledge, attitudes, and skills influence investment decisions, using a mixed-methods approach combining surveys and interviews. Findings reveal that higher financial literacy correlates with better investment decisions, increased risk awareness, and stronger long-term planning. Socio-demographic factors like education level, income, and financial socialization further moderate this relationship. Implications highlight the importance of early financial education initiatives and targeted financial literacy programs to enhance investment outcomes among young adults.

Keywords: Financial Literacy, Investment Decision-Making, Young Adults, Financial Behavior, Risk Perception, Financial Education

1. Introduction

Young adults today face complex financial environments, characterized by diverse investment opportunities, digital platforms, and an uncertain global economy. As financial markets evolve, the ability to make informed investment decisions becomes essential for financial stability and long-term wealth accumulation. Financial literacy—the knowledge and skills needed to manage financial resources effectively—plays a pivotal role in shaping individuals' financial choices (Lusardi & Mitchell, 2014). However, many young adults lack adequate financial literacy, potentially leading to suboptimal investment decisions.

This research explores how financial literacy affects investment decision-making among young adults. Specifically, it seeks to understand whether those with higher financial literacy are more adept at selecting appropriate investment instruments, assessing risk, and planning for future financial goals.

2. Literature Review

2.1 Financial Literacy Defined

Financial literacy refers to the ability to understand and use financial skills, including budgeting, investing, borrowing, and saving (Huston, 2010). Core components include knowledge of financial concepts, numeracy skills, and confidence in financial decision-making.

2.2 Investment Decision-Making

Investment decision-making involves choosing among alternative financial assets based on risk tolerance, time horizon, and expected returns. Rational investment decisions require an understanding of concepts such as diversification, risk-reward tradeoffs, and portfolio management (Kahneman & Tversky, 1979).

2.3 Relationship Between Financial Literacy and Investment Choices

Previous studies show a positive relationship between financial literacy and investment quality. Financially literate individuals are more likely to participate in markets, diversify

portfolios, and avoid predatory investment schemes (van Rooij, Lusardi, & Alessie, 2011). However, gaps exist regarding how young adults perceive risk and integrate financial knowledge into real-world investing.

2.4 Socio-Demographic Influences

Age, education, income, and financial socialization influence financial literacy and investment behavior. Young adults with higher education and exposure to financial education programs tend to show better financial outcomes.

3. Methodology

3.1 Research Design

A mixed-methods approach was adopted:

- **Quantitative component:** Anonymous online survey with standardized questionnaires measuring financial literacy and investment decision factors.
- **Qualitative component:** Semi-structured interviews exploring perceptions, attitudes, and real-life decision examples.

3.2 Sample

The sample included 500 young adults aged 18–35 from urban and suburban areas, selected through purposive sampling. Demographic variables included gender, education level, employment status, and monthly income.

3.3 Instruments

- **Financial Literacy Scale:** Adapted from the OECD financial literacy framework, covering budgeting, interest rates, inflation, risk diversification, and investment products.
- **Investment Behavior Inventory:** Designed to assess participants' investment choices, diversification habits, risk tolerance, and decision confidence.

3.4 Data Collection

Participants completed the online survey via email invitations. A subgroup (n = 50) participated in follow-up interviews conducted virtually.

3.5 Data Analysis

Quantitative data were analyzed using descriptive statistics, correlation analysis, and regression modeling. Qualitative data were coded and thematically analyzed to identify patterns and insights.

4. Results

4.1 Demographic Overview

- **Age Range:** 18–35 (Mean = 26.4)
- **Education:** 70% college graduates, 20% postgraduates, 10% high-school
- **Investment Experience:** 60% had prior investment experience

4.2 Financial Literacy Scores

Participants showed variable financial literacy, with average scores indicating moderate understanding of basic financial concepts and limited comprehension of advanced investment topics.

4.3 Correlation Results

Analysis showed a **positive and significant correlation** between financial literacy and investment decision quality ($r = 0.62, p < 0.01$). Higher literacy predicted:

- Increased participation in diversified portfolios
- Greater awareness of risk versus return
- Preference for long-term investments

4.4 Regression Analysis

Regression models indicated that financial literacy accounted for 45% of variance in investment decision quality, controlling for income and education.

4.5 Qualitative Themes

Key themes from interviews included:

- **Confidence in Decision-Making:** Literate participants expressed higher confidence.
- **Risk Awareness:** Better understanding of risk led to diversified and balanced portfolios.
- **Information Sources:** Participants relied on online platforms, social media groups, and peers for financial information.

5. Discussion

The findings confirm that financial literacy positively influences investment decision-making among young adults. Those with greater knowledge are more likely to engage in rational investment planning and avoid impulsive decisions. The study also highlights that literacy alone is insufficient; attitudes toward risk, access to reliable information, and socio-economic context matter.

5.1 Implications for Financial Education

- Integrate practical investment modules into educational curricula.
- Promote early financial socialization through family and community programs.
- Develop digital literacy tools that simplify investment concepts.

5.2 Limitations

- Self-reported data may be subject to bias.
- Urban-centric sample limits generalizability to rural populations.

6. Conclusion

This research substantiates the vital role of financial literacy in shaping effective investment decision-making among young adults. Increased literacy improves risk assessment, portfolio diversity, and long-term planning. Policy-makers, educators, and financial institutions must collaborate on targeted literacy initiatives that empower young adults to make informed financial decisions for sustainable financial well-being.

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